

M/023/007

NORTH LILY MINING COMPANY

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Denver, Colorado, 80202

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DATE: 22 October 1999

TO: D. Wayne Hedberg
Permit Supervisor
Minerals Regulatory Program
State of Utah
Division of Oil, Gas and Mining
1594 West North Temple, Suite 1210
Salt Lake City, Utah 84114

Hard Copy Mailed

FAX: 801-359-3940

CC: Mary Ann Wright Fax 801-359-3940
Dennis Frederick Fax 801-538-6016

FROM: Gene Webb/ Steve Flechner

RE: Response to Notice of Non-Compliance, North Lily Mining Company, Tintic Project
M/023/007, Juab County, Utah dated October 12, 1999

Please find attached our response to the above Notice of Non-Compliance. If you have any questions please call us.

Regards,

Gene Webb

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n/mcfaxc

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**NORTH LILY MINING COMPANY**

Suite 210

1800 Glenarm Place

Denver, CO 80202

Tel: 303.294.0427

Fax: 303.295.2255

October 21, 1999

Mr. D. Wayne Hedberg
Permit Supervisor
Minerals Regulatory Program
State of Utah
Division of Oil, Gas and Mining
1594 West North Temple, Suite 1210
Salt Lake City, Utah, 84114

NORTH LILY MINE

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Re: Notice of Non-Compliance, North Lily Mining Company, Tintic Project M/023/007,
Juab County, Utah dated October 12, 1999

Dear Mr. Hedberg:

Your letter of Non-Compliance was received with concern and disappointment. North Lily Mining Company has always attempted to operate in a responsible manner, and in accord with applicable regulations, rules, stipulations, and permit conditions. Prior to receipt of your letter, we believed that North Lily maintained a good, cooperative working relationship with DOGM and had been responsive to the concerns of your group. During this period of unfavorable business conditions, North Lily has successfully reclaimed disturbance from our mining operations and we have been released from further obligation for these (Tom Munson letter dated June 3, 1998).

The company has made good progress toward closure and reclamation of the Silver City heap leach facility with a closure plan approved by Division of Water Quality, and heap grading and burial of solution return piping having been completed to date. The remaining tasks include: DWQ approval of the design of a biopass system, construction of the biopass system, final grading of the heap to repair minor areas of slumping, removal of surface facilities, disposal of solutions, placement of top soil and seeding. It was the company's intention to complete these tasks during the summer and fall of 1999.

In the spring of 1999, a qualified firm was retained to conduct feasibility studies regarding the biopass system design. In their final feasibility report, the contractor stated: "Using data generated in the column testing, Compliance Technology, Inc. can design a full-scale system for treating the drain down of the Silver City heap leach pad." North Lily learned that the contractor was no longer in business when it called the contractor in

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August to discuss the feasibility report and to commission the design studies, which would have been forwarded to DWQ for review and approval.

Because it was not possible to retain a replacement contractor, complete necessary studies, design the biopass system, gain DWQ's approval and construct the system in 1999, North Lily immediately began intensive efforts to lessen the effluent inventory by installation of additional misters and sprinklers. These efforts have been successful with effluent volumes being reduced approximately 25% to about 700,000 gallons from August 18, 1999 to September 9, 1999. In order to provide an additional factor of safety in effluent management, North Lily's consultant, Tom Gast, requested permission of your group and DWQ to land dispose of 1 to 1.5 acre feet of heap effluent yet this fall. Approval of that request would have drawn the effluent inventory to minimal levels. Mr. Gast's requests were denied and North Lily continues to evaporate effluent with significant reductions noted. An important observation is that as the heap was flushed with natural precipitation during the past four years, the company has noticed a meaningful decrease in metals and cyanide concentrations in effluent. TDS concentrations are declining as well, but not as rapidly.

North Lily has carefully reviewed the allegations contained in your October 12, 1999 letter. It is North Lily's belief that while DOGM's opinions stated in the letter must be addressed, a careful review of the facts does not elevate the described situations into valid "Findings of Non-Compliance". Our review follows.

Violated rules:

1. Section R647-4-107.1 Operation Practices - requires the operation to minimize hazards to the public safety and welfare. Due to the presence of dead animals noted during recent staff inspections (2 dead birds and a dead sheep), the questionable water quality of the pad effluent, and the insecure nature of the site (wide open gates leading to process ponds and heap), the Division feels public safety and welfare is compromised.

North Lily maintains the facility such that it does not present a hazard to public safety and welfare. On site staff are employed and we have contracted security since 1995 to regularly check the facility during off hours. Following DOGM's verbal report of the facility gate being open without staff present, the company learned that occasionally a staff person left the facility for brief periods without locking the gate. Staff has been reminded that all gates are to be locked when they are away from the facility, no matter how briefly. We thank DOGM for pointing to the described situation and believe that the company's actions have tightened security such that the facility does not represent a hazard to public safety and welfare.

2. R647-107.2 Drainages - requires the operator to take appropriate measures to avoid or minimize environmental damage to natural drainage channels. To date, there have been a number of unauthorized releases of contaminated water leaving the process water ponds and traveling offsite through a culvert located west of the site and under State Highway 6 to adjacent undisturbed areas.

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The company is unaware of any unauthorized releases of contaminated water leaving the process water ponds such that the releases resulted in environmental damage to natural drainage channels. There have been no releases from the process ponds since 1991 (the period of history available to current management). There was a wash out a number of years ago, while the heap was under active leach, which resulted from a broken pipe. Heap material was washed from the pad. This release was properly reported and cleaned up to the satisfaction of DOGM and DWQ. Said again, to our knowledge, there have been no releases from the ponds in the past eight years.

Process Ponds - Given the current deteriorated condition of the process ponds (and the volume of impounded solutions), it is doubtful these facilities will successfully retain the amount of additional effluent/runoff that may be produced when a significant precipitation event (or spring snowmelt) occurs. We believe that the capacity and integrity of these containment facilities will be breached leading to uncontrolled discharges of solutions.

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It was North Lily's intention to close the facility this year and maintenance to the pond liners was deferred. Because the biopass contractor was not able to prepare a design in time to gain DWQ's approval, it became necessary to defer the final closure until next year. Once North Lily learned of this, the company began to aggressively evaporate effluent and to repair the pond liners. The company also requested DOGM and DWQ approval to land apply 1.0 to 1.5 acre feet of effluent to provide an added factor of safety. This land application requests were denied but the company continues to successfully evaporate effluent. Frankly, North Lily does not understand the basis for DOGM's contention that "it is doubtful these facilities will successfully retain the amount of additional effluent/runoff that may be produced when a significant precipitation event (or spring snowmelt) occurs" given the fact that there is less than 30% of fluids present in the system today when compared to when the facility was operating.

3. *R647-4-107.3. Erosion Control - There is evidence of significant erosion on the heap leach pad where processed, contaminated ore has slumped blocking the solution conveyance ditches. This is causing potential environmental and heap stability problems and uncontrolled discharge of process solutions.*

There is some slumping of the graded heap surface that will be repaired as a part of final grading prior to the placement of topsoil on the heap surface. Four-inch pipe was placed into certain of the solution conveyance ditches and covered with clean material per the suggestion of DWQ. This was done to prevent the ditches from clogging and not allowing effluent from flowing to the biopass system (letter dated August 21, 1996 to Dennis Frederick, DWQ with copy to Tom Munson, DOGM). It is believed that DOGM has mistakenly thought that the material in the ditches is the result of slumping rather than having been placed as part of the closure plan.

4. *R647-4-107.4. Deleterious Materials - deleterious material (i.e. pad effluent) is potentially leaving the site by way of compromised liners both associated with the pad*

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and the process water ponds. The presence of several opened electrical transformers on the east side of the heap leach pad raises the question of possible PCB contamination.

As discussed above, North Lily implemented a program of maintenance to repair tears in the pond liners in September. The transformers referenced were tested in 1994 and found to be non-PCB transformers. This information, along with a copy of the PCB test results were forwarded to Wayne Hedberg by fax from Tom Gast on October 6, 1999. In the event that DOGM has not reviewed the information, another copy is included for review.

Location of Non-Compliance

The location of the site is on the east side of State Highway 6 in the NW 1/4, Section 35, Township 10 South, Range 3 West, SLBM, Juab County, Utah.

The project includes the described area as well as the area on the west side of Highway 6 used for land application (see letter March 5, 1997 from Paul Spor to Dennis Frederick, DWQ with copy to Tom Munson, DOGM).

Request for Reconsideration

North Lily Mining Company requests that DOGM carefully review the information contained in this transmittal and reconsider its Finding of Non-Compliance. In the event that DOGM determines that its Finding of Non-Compliance continues to be in order, North Lily Mining Company respectfully requests to contest the individual findings and wishes to schedule a meeting before the Associate Director and appropriate members of the Minerals Program staff. This letter serves as timely notice of our request to contest.

Please feel free to contact either Tom Gast of Environmental Management Services Company (970/461-0571) or me if additional information can be provided. It is our hope that our working relationship can be restored.

Sincerely,

W. Gene Webb
Executive Vice President

Enclosure: Gast fax dated 10/6/99

Cc: Tom Gast, EMS
Dennis Frederick, DWQ
Mary Ann Wright, Associate Director, DOGM

EMS
1413 West 57th Street
Loveland, CO 80538
970/461-0371 fax 970/461-0591
e-mail: TGast99@aol.com

facsimile transmission

To: D. Wayne Hedberg Fax: 801/359-3940

From: Tom Gast Date: 10/6/99

Re: North Lily PCB Test Results Pages: 4 pgs

CC: Steve Flechner / Gene Webb

Urgent For Review Please Comment Please Reply Please Recycle

Following are the PCB test results for the transformers noted during the course of DOGM's recent inspection of the North Lily facility. Please contact me with any questions.

Tom Gast

RECEIVED
OCT 22 1999
DIV. OF OIL, GAS & MINING

Memo To: File
From: Tom Gast
Date: November 9, 1994
Subject: Silver City PCB Test Results

Samples were obtained from the four pieces of electrical equipment stored by North Lily at Silver City on October 19, 1994. The samples were submitted to Utility Testing Laboratory of Salt Lake City and the PCB content was tested as required by EPA and Utah regulation. Samples were taken from the following pieces of equipment:

Sample No.	Serial No.	Description
NL #1	NSN	Transformer
NL #2	19590	Transformer 100 kva 2400/240-480
NL #3	NSN	Oil Switch
NL #4	19600	Transformer 100 kva 2400/240-480

Results: No PCB's were detected in samples 1, 2 or 3. Sample 4 contained 1.5 mg/kg PCB which is just above the detection limit of 1.0 mg/kg PCB.

Regulatory Effect: EPA classes PCB content as follows:

>500 ppm PCB - PCB Transformer

>50 ppm, <500 ppm PCB - PCB Contaminated Transformer

<50 ppm PCB - non-PCB Transformer

Since no PCB's were detected in samples 1, 2 or 3 and only 1.5 ppm PCB was detected in Sample 4, all four devices qualify as non-PCB transformers.

Attached you will find copies of the sample Chain of Custody list and the Laboratory Analysis data sheet. A copy of these test results is to be kept on file in Silver City for possible inspection by EPA or the State of Utah.

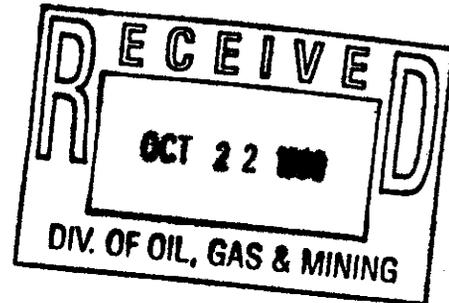
Please contact me with your questions.

UTILITY TESTING LABORATORY

875 SO. CHESTNUT ST.
P. O. BOX 25005
SALT LAKE CITY, UTAH 84125
PHONE: (801) 973-8305

OCTOBER 28, 1994

E.M.S.
SUITE 103
ATTENTION: MR. TOM GAST
2301 RESEARCH BLVD.
FORT COLLINS , CO 80526



SUBJECT: ORDER NO. NORTH LILY 0001
RELEASE DATE: 28 OCT 1994
PCB TESTS ON SUBJECT SAMPLES

TESTING PERFORMED PER THE FOLLOWING METHODS:
EPA METHOD 600/4-81-045 (OIL), SW846-8080 (SOIL),
AND EPA METHOD 608 (WATER)
METHOD DETECTION LIMITS:
1 mg/Kg IN OIL, 1 mg/Kg IN SOIL AND 1 µg/L IN WATER

GENTLEMEN:

FOLLOWING ARE THE TEST RESULTS ON YOUR SUBJECT SAMPLES:

TEST NO.		RESULT OF TEST
10-21-94-03	OIL SAMPLE S/N NL#1(NO. LILY)	ND
10-21-94-04	OIL SAMPLE S/N NL#2(NO. LILY)	ND
10-21-94-05	OIL SAMPLE S/N NL#3(NO. LILY)	ND
10-21-94-06	OIL SAMPLE S/N NL#4(NO. LILY)	1.5 mg/Kg (1260) PCB

UTILITY TESTING LABORATORY

D.M. Thorsen
D. M. THORSEN

